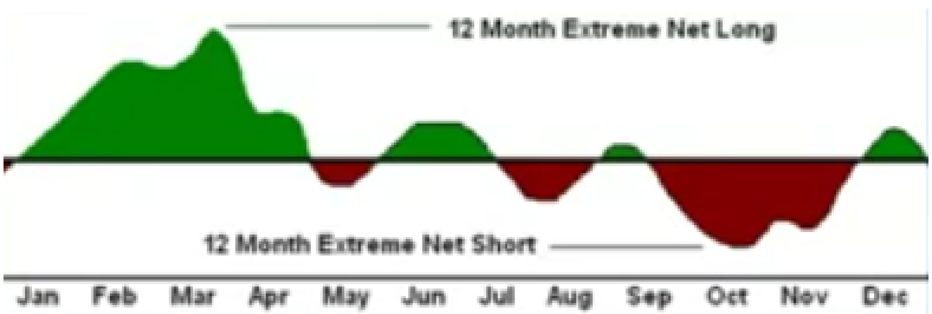
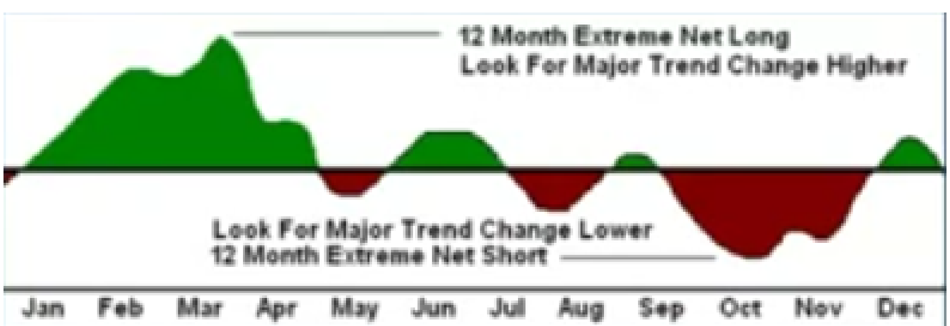
Trade Forex Like the Insiders

Monday, December 2, 2013 9:14 PM

- We can use the Commitments of Trader's report to track the smart money.
- It is a report that is released every week reporting on the positions of 3 groups of traders.
- The three groups are the large hedgers/commercials, retail traders, & non-commercial large traders.
- Commercial and large traders are basically diametrically opposed.
- The large non-commercial or "fund traders" are trend following by nature so they will be wrong at tops and bottoms.
- Commercial traders trade on fundamental supply & demand factors.
- We can learn to trust their fundamental bias and use our own technical analysis in conjunction with it. Just allow those who have a more trained and accredited staff to do the work for you.
- When the Commercials are at a 12 month extreme net long we would be expecting a long term low or significant intermediate term low to be forming in the market place relatively soon after this reading in the COT data.
- When Commercials are at a 12 month extreme net short position we would be expecting a long term high or significant intermediate term high to be forming in the market place relatively soon after this reading in the COT data.

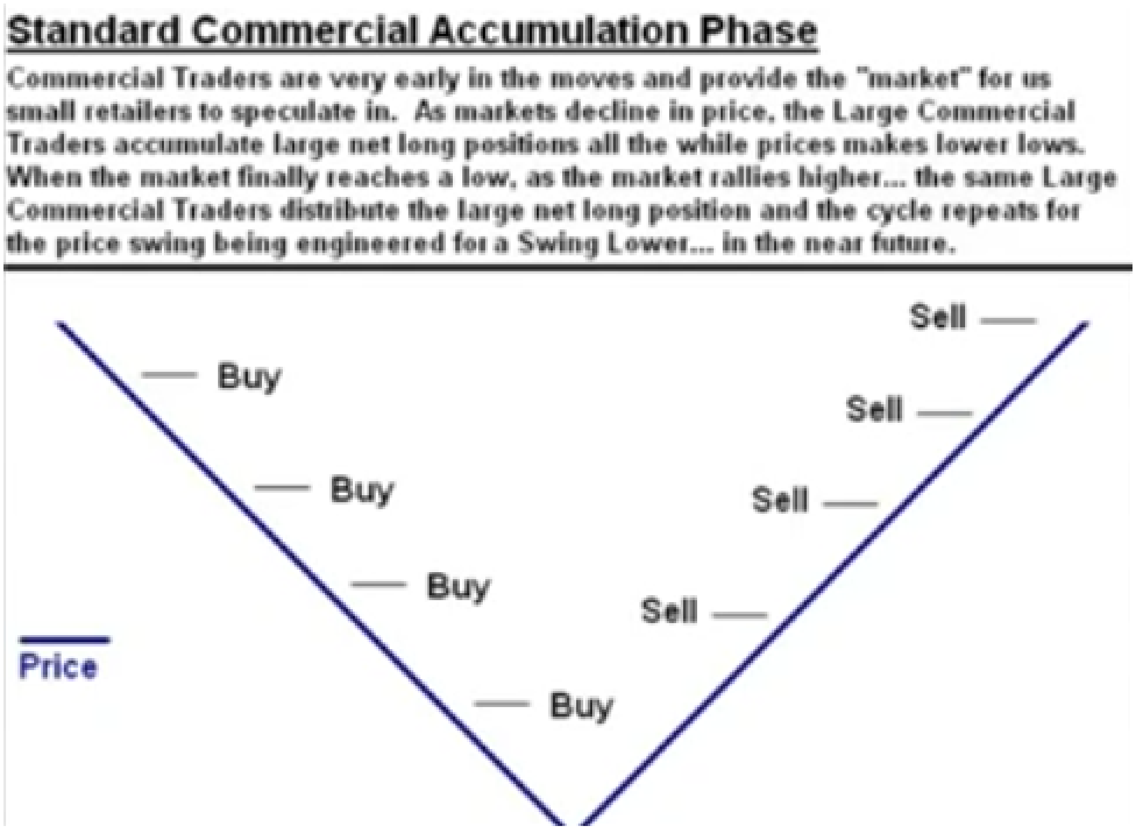


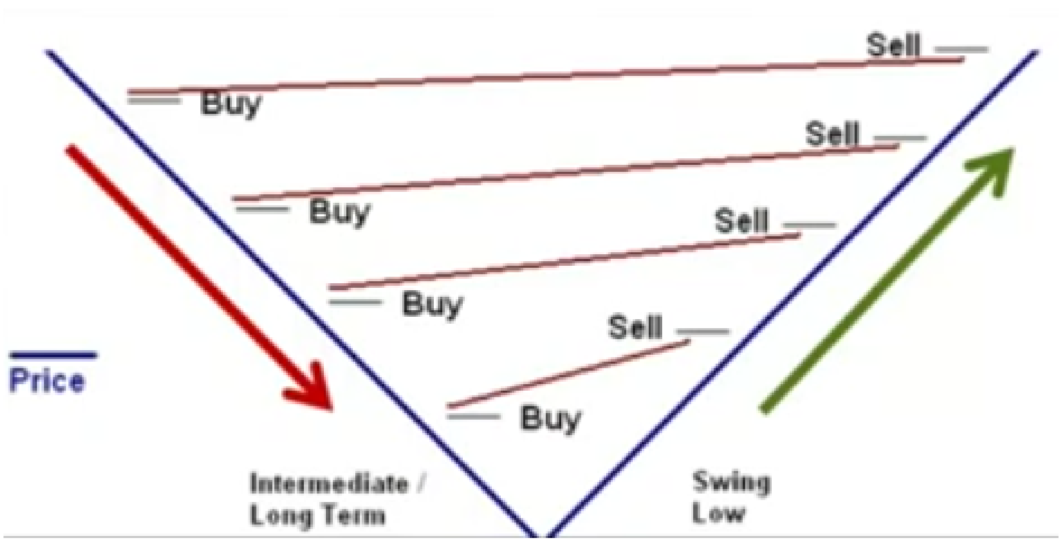
- The majority of market tops and bottoms are highlighted by COT fingerprints left by the Commercial traders.
- COT data can be used as an overbought or oversold index.
- At 12 month extremes we need to learn to anticipate major trend changes.
- COT is an early warning of major trend reversals for long term analysis.



- When Commercials get to an extreme net long we should be filtering out all of our short trades and start looking for that trend reversal.
- When Commercials get to an extreme net short we should be filtering out all of our long trades and start looking for that trend reversal.
- This is not a timing tool, do not time your trades based on COT analysis. It is a selection tool that gives us a long term anticipation of something unfolding and we just wait for technicals to line up with that premise.

- You will not be day trading on COT information, but you will use it to help you with your intermediate term, short-term, swing, & day trading by forming a long-term bias based off of it.
- How do Commercials trade? The image below will show you how:
- Think of the below example as a daily chart.





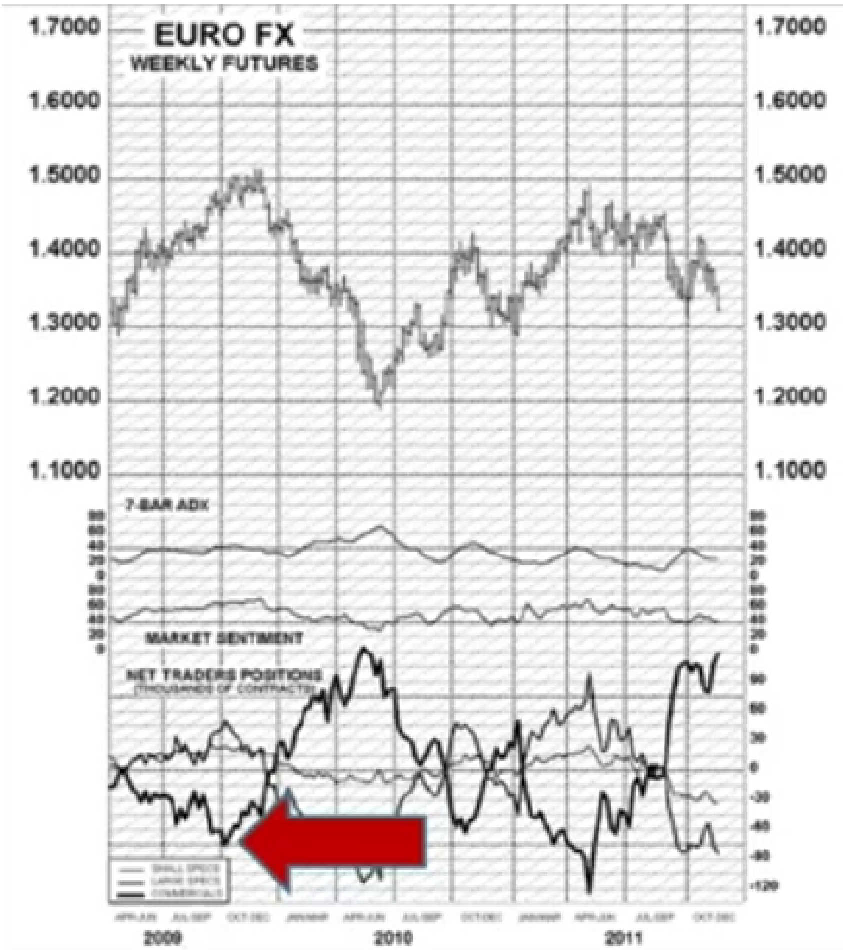
- As the market/price structure starts moving upwards and we have formed an intermediate or long-term low on the daily chart, we start looking for 4 hour, 1 hour, and 15 minute basis optimal trade entries and buy on retracements.



- Commercials have already accumulated their net long positions so they will be selling & distributing it to us as price moves up.

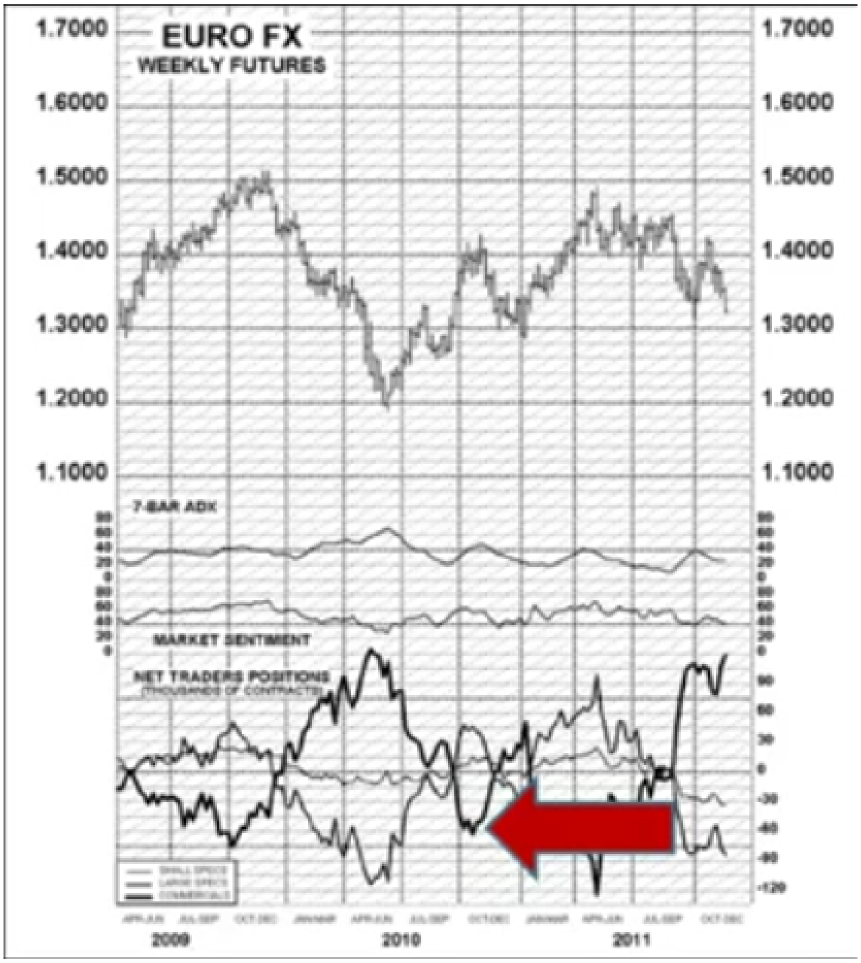


- Point #3 is the ideal position to be buying because the trend has been put in place by the Commercials by this point.
- After being extreme long and then having a correction to the downside, once it has gone above 0 and is net long again, that is an outstanding time to be a buyer. We will be in sync with the Commercial trend that is being engineered.
- The basis of this is to look for the trend that the Commercials are engineering and you trade in sync with that based on the extreme's.

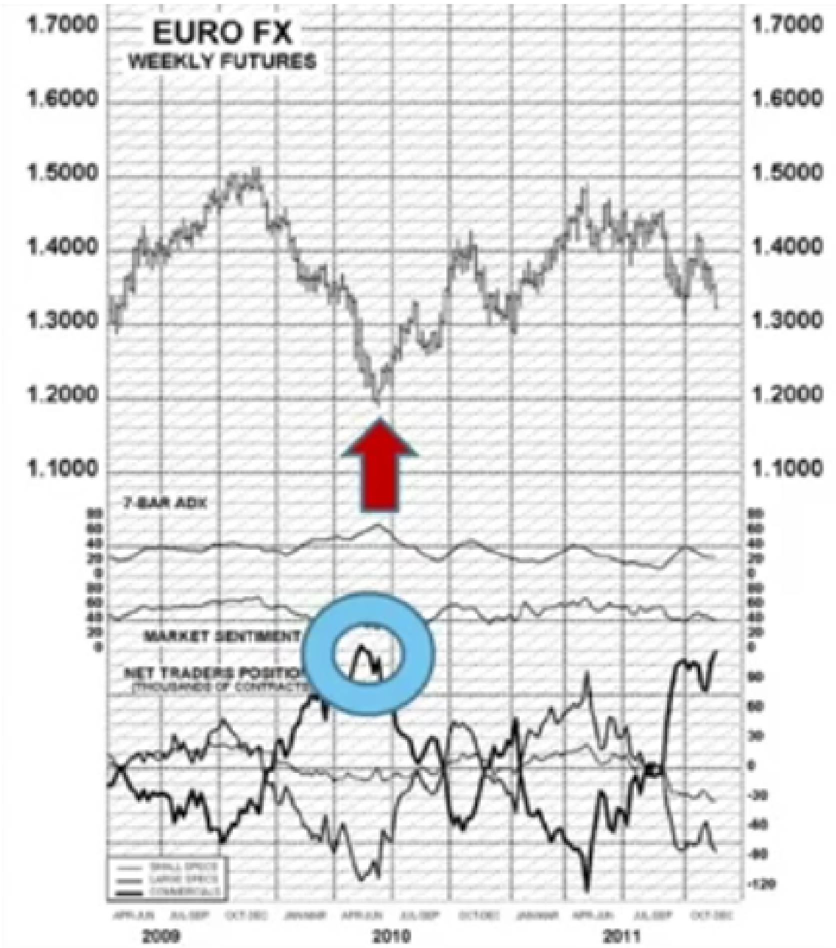

EURO FX
WEEKLY FUTURES
1.7000
1.6000
1.5000
1.4000
1.3000
1.2000
1.1000
7-BAR ADX
MARKET SENTIMENT
NET TRADERS POSITIONS
(THOUSANDS OF CONTRACTS)
2009
2010
2011

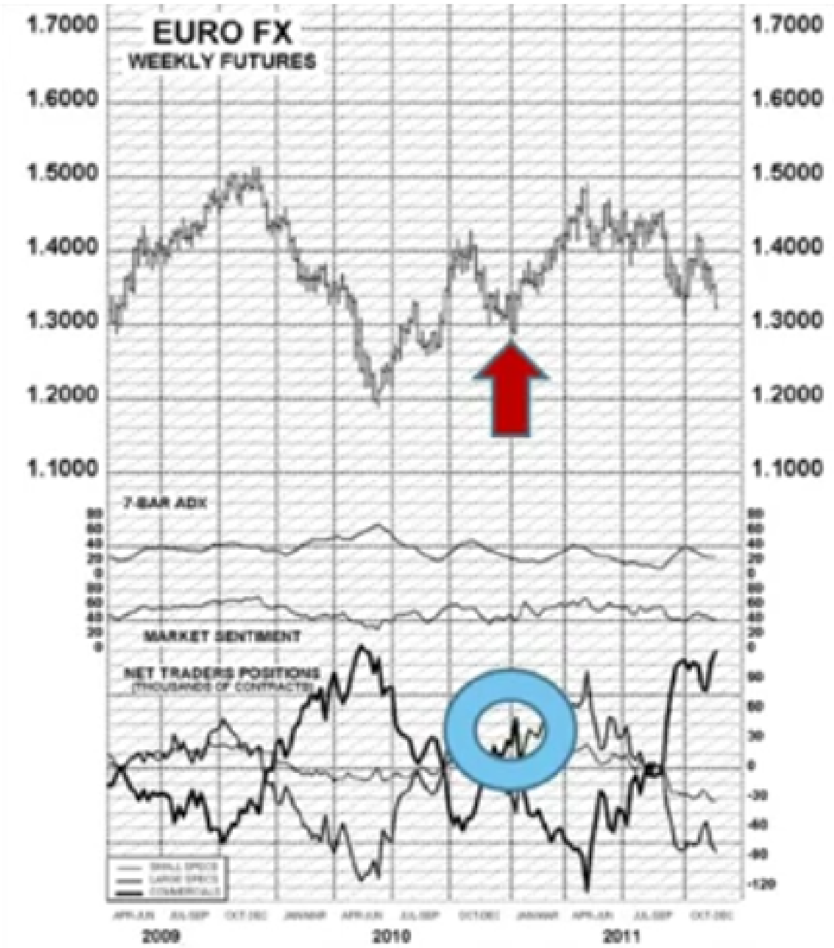


- You can see in the chart below that arrow is pointing at a net short position after an extreme net long. This means that it will probably just be a correction in the larger overall trend which it was.



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- It is not always whether the Commercials are just net long or net short. It is about the trend that has been set in place by 12 month or 4 year extremes.
- If we are coming from a 12 month or 4 year extreme net long then we are in a buy program.
- If we are coming from a 12 month or 4 year extreme net short then we are in a sell program.
- These are only cancelled out by a new 12 month or 4 year extreme.
- You should not just be looking at whether they are net long or net short. A rapid increase would be a buy signal and a rapid decrease would be a sell signal.
- A 20% change is considered significant.
- Trade in the direction of the most recent 12 month Commercial net positions.
- Wait for price to form intermediate term swings.
- Use OTE pattern to enter and trade with the large traders.
- Filter longs when COT reaches fresh 12 month and or 4 year extremes on Commercial net short positions.
- Filter shorts when COT reaches fresh 12 month and or 4 year extremes on Commercial net long positions.
- Trade with the COT trend engineered by Commercials.
- Look for seasonal tendencies to line up with net readings for remarkable trade setups.

BOOK RECOMMENDATIONS

- Anything by Larry Williams is good.


Inner Circle Trader
Recommendations
THE
COMMITMENTS
OF TRADERS
BIBLE
HOW TO PROFIT FROM INSIDER
MARKET INTELLIGENCE
STEPHEN BRIESE
Trade Stocks
& Commodities
with the Insiders
SECRETS OF THE COT REPORT
LARRY WILLIAMS